

NOL EVALUATION PROBLEM

Facts:

For the tax year ending 12/31/2004, a final elective consolidated return was filed by Lucky Craft, Inc. and three subsidiaries. (Bass Research, LLC is a limited liability company that has elected corporate tax treatment at the federal level.) This return reflected the following income and losses after the application of the consolidated apportionment factor of 4.8615%:

Lucky Craft, Inc. – Acct # 165320 – Income of \$ 165,000

Bass Research, LLC – Acct # 008455 – Income of \$ 86,000

Lure Production, Inc. - Acct # 265936 – **Loss of \$ 134,000**

Lucky Retail, Inc. – Acct # 396441 – **Loss of \$ 183,500**

New Designs, Inc. – Acct # 183640 filed a separate entity return for 2004 that reflected a **loss of \$ 4,630** after the application of an apportionment factor of 18.73%.

On 01/01/2005, Lucky Craft, Inc. acquired 85% of the stock of New Designs, Inc., a corporation doing business in Kentucky that had filed its initial return with Kentucky in 2004.

Lucky Craft, Inc. (165320) filed a mandatory nexus consolidated return that included Lure Productions, Inc. (265936), Bass Research, LLC (008455), and New Designs, Inc. (183640). This return reflected the following income and losses prior to the use of an apportionment factor of 6.36%:

Lucky Craft, Inc. – Income of \$ 283,525

Lure Productions, Inc. – **Loss of \$ 61,243**

Bass Research, LLC – Income of \$ 42,980

New Designs, Inc. – **Loss of \$ 37, 840**

- (1) What is the prior year carry forward for this nexus consolidated group?
- (2) What amount should be entered on the Form 720 for the current net operating loss adjustment?
- (3) Will the amount listed above be a positive or negative number?
- (4) (4)What is the NOL carry forward to 2006?

On 01/01/2006 Lucky Craft, Inc became a 99% partner in Molded Plastics, LLC, a partnership doing business in Kentucky. Molded Plastics had filed a 2005 separate entity return for 2005 and paid corporation income tax on the income reflected within that return.

The 2006 mandatory nexus consolidated return filed by Lucky Craft, Inc. reflected the following income and losses before the application of an apportionment factor of 9.16%:

Lucky Craft, Inc. – Acct # 165320 – Income of \$ 314,285

Lure Production, Inc. – Acct # 265936 – **Loss of \$ 283,260**

Bass Research, LLC – Acct # 008455 – Income of \$ 31,480

New Designs, Inc. – Acct # 183640 – **Loss of \$ 30,420**

Molded Plastics, LLC – Acct # 436181 – **Loss of \$ 43,415**

(5) What amount should be entered on the Form 720 for the current net operating loss adjustment?

(6) Will the amount indicated above be a positive or negative amount?

(7) What is the NOL carry forward to 2007?

(8) What portion of the 2007 carry forward will not be available to be used by the entity that reported the loss in 2006?

On 12/31/2006 Lucky Craft, Inc. sold 10% of its investment (originally made on 01/01/2005) in New Designs, Inc.

(9) Assuming nothing else changes in either nexus or ownership, who will be included in the 2007 mandatory nexus consolidated return filed by Lucky Craft, Inc?

(10) What is the apportioned NOL carry forward available to New Designs, Inc.?